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RR RUEHLH RUEHPW  
DE RUEHIL #3389/01 3011249  
ZNR UUUUU ZZH  
R 271249Z OCT 08  
FM AMEMBASSY ISLAMABAD  
TO RUEHC/SECSTATE WASHDC 9495  
INFO RUEHRC/DEPT OF AGRICULTURE WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RHEBAAA/DEPT OF ENERGY WASHDC  
RUEHRC/USDA FAS WASHDC 4271  
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC  
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL  
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RUEHBUL/AMEMBASSY KABUL 9306  
RUEHLO/AMEMBASSY LONDON 8957  
RUEHML/AMEMBASSY MANILA 3053

UNCLAS SECTION 01 OF 02 ISLAMABAD 003389

SENSITIVE  
SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [EAID](#) [EFIN](#) [ENGY](#) [PGOV](#) [PK](#)

SUBJECT: AS PROTESTS CONTINUE GOP RESERVES DECISION TO ELIMINATE  
ELECTRICITY TARIFF HIKE

¶1. (SBU) Summary. Faced with protests nationwide the Government of Pakistan has reversed the recent decision to increase electricity tariffs by 31 percent. Minister of Water and Power Raja Pervez Ashraf stated at a news conference on October 26 that the government stands by its decision to slash the annual subsidy from Rs 185 billion (USD 2.27 billion) to Rs 65 billion (USD 79 million), but the implementation of the decision has been delayed for now. With unsustainable subsidies on electricity at a time of heightened financial distress, Adviser on Finance Shaukat Tareen, noted that tariff increases are necessary but that the GOP would review the percentage passed to the public. Faced with unprecedented power blackouts of up to 20 hours per day in several cities across Pakistan, it is not difficult to imagine why the Pakistani public is contesting the government notion that they should pay more for less. End Summary.

¶2. (SBU) As expected the Government of Pakistan's (GOP) September 9 decision to raise the domestic electricity tariff by an unprecedented 31 percent was met with stiff resistance by the Pakistani public. The GOP claimed that the step was necessary to reduce the subsidy on electricity from Rs 185 billion (USD 2.27 billion) to Rs 65 billion (USD 79 million) annually. The GOP decided to pass on the burden to the public with a phase one price hike of 31 percent increase in calendar year 2008 and another planned 30 percent increase before the end of Pakistan's fiscal year in June 2009.

¶2. (U) When people received their monthly electricity bill for September, which reflected the 31 percent increase, riots and protests were held in sixteen cities across the country. Fearing a major law and order situation the GOP announced a reversal on October 23 and suspended collection of the increased electricity bills. Minister for Water and Power Raja Pervez Ashraf stated at a news conference on October 26 that the government stands by its decision to slash the annual subsidy from Rs 185 billion to Rs 65 billion, but the implementation of the decision has been delayed for now. The GOP has formed a committee to recalculate the percent increase.

¶3. (U) At a national televised press conference, Ashraf claimed that the previous government left Rs 400 billion (USD 4.9 billion) in circular debt in the domestic power sector and the Pakistan Peoples Party-led government must now pay the price. He noted the huge circular debt had affected the supply of furnace oil and gas to

power companies and has taken a heavy toll on the generation capacity of independent power producers (IPPs). He added that the debt is adversely affecting the functioning of the Water and Power Development Authority (WAPDA) and the distribution companies nationwide since they are unable to buy fuel for their power plants.

¶4. (U) Minister Ashraf noted that the recent release of Rs 60 billion (USD 0.737 billion) in outstanding payments to IPPs has helped increase power generation nationwide. Newspapers reported that Ashraf has issued a statement stating "I appeal to the masses to stop the protests because the increase in tariff has not been implemented." Ashraf further alleged that some people are fuelling the issue for political gains. He said those who resorted to protests and damaged public and private property were not serving the best interests of the country.

¶6. (U) Faced with unsustainable subsidies on electricity at a time of heightened financial distress, Adviser on Finance Shaukat Tareen, ruled out a complete withdrawal of the recent increase in power tariff on October 26. Talking to the media he said that the "tariff increase would be there. How much and what proportion, I think this has to be decided by the committee set up to review the hike."

¶7. (SBU) Comment. With the power tariff issue the GOP finds itself between a rock and a hard place. The current 61 percent subsidy is unsustainable and further depletes the dangerously low foreign reserves; however faced with double digit inflation the public is unable to absorb another significant price increase. While the GOP has made commitments to international institutions to eliminate the

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fuel subsidies, the public outcry will demand that such increases be passed along in much smaller increments and that the public sees more power generation as well. Faced with unprecedented power blackouts of up to 20 hours per day in several cities across Pakistan, it is not difficult to imagine why the Pakistani public is contesting the government notion that they should pay more for less.  
End Comment.

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